WATER ALLOCATION PROGRAM DEVELOPMENT
WATER RATES COMMITTEE MEETING

MINUTES OF MEETING
January 8, 2003

Members Present:
John Bell
Jean Bondarevskis
Ken Burke
Ted Garille
Guy Lefebvre
Ken Payne
Anthony Simeone

Members Absent:
Al Mancini
Anna Coelho

Guests
Brian Bishop
Bekah Rottenberg
Russ McDursh
John Mura

Water Resources
Connie McGreavy

I. CALL TO ORDER:
With a quorum present, Mr. Ted Garille called the meeting to order at 10:10 AM.

II. APPROVAL OF MINUTES:
On a motion by Mr. Lefebvre, seconded by Mr. Simeone, the minutes of the December 11, 2001 meeting were approved.

III. ITEMS FOR ACTION:

A. Committee Leadership and Membership
Mr. Garille regretfully announced his resignation as committee lead. Ms. Bondarevskis will take over for the next few months. Mr. Burke introduced himself as the Director of Public Works for the Town of Westerly. He reported that he was opening bids for a water and sewer evaluation and that he had conducted a sewer rates study in Cranston. Brian Bishop stated his interest in learning how to derive an algorithm for calculating a Demand Side Management (DSM) charge. Ms. McGreavy indicated that Mr. George Burke from Ocean State Power would join the committee, and that more private sector major users were needed. Toward this end, Mr. Garille volunteered to contact Michael Abboud at Danielle Prosciutto.

B. Refining the Mission
Ms. McGreavy provided mission statements for all the committees. The Water Rates/Fees/Alternatives Committee mission as listed was "Identify ways that the water and waste water rate structures can be modified to reflect the true cost of using water while encouraging conservation and efficient water management. Investigate the use of fees for various strategies to reduce, reuse, or recycle water."

There was general agreement of the mission statement. Ms. McGreavy added that there are alternatives ways for paying for water, such as market-based "trading", which could be included in the mission. Mr. Lefebvre thought it was important to use economic

analyses, e.g. looking at mean household water supply. Mr. Bishop felt it was presumptive to say that the true cost of water encourages conservation. Mr. Garille acknowledged that some people can't, or won't, reduce their usage. He stated that there should be an ascending rate structure, not a descending structure. In other words, the more water you use, the more you pay. Mr. Bishop infrastructure costs ought to descend. This is where economical analyses are critical. Mr. Lefevbre reported an EPA figure of 4% of mean household income for water/wastewater systems. Mr. Simeone added that preservation of the resource costs something as well. Another factor is the ratepayer's ability to pay and that must be tied into the [rate] system.

Ms. McGreavy recapped the discussion and offered a revised mission statement, "Identify ways, using economic analysis and other means that the water and waste water rate structures can be modified to better reflect the cost of using water and preserving the resource while encouraging conservation and efficient water management, mindful of the users ability to pay. Investigate the use of fees and other alternative strategies." The committee was accepting but agreed that the final mission will evolve with time.

B. Demand Side Management Fees

Mr. Garille introduced John Mura of Energy New England (ENE), a consultant for the utility industry. Mr. Mura stated that ENE had developed a proprietary software tool for conducting water audits. Mr. Mura said that the emphasis is on "water optimization" not "water conservation" and that his company looks at both demand and supply. Mr. Bell mentioned that some water systems have 25% "unaccounted for" water. Mr. Mura explained the benefits of audits, citing his success in Massachusetts. He felt there were similarities between the water and energy industries, e.g. challenges, concerns, and needs, as well as debt service capacity, and rate recovery. He added that states are implementing programs to help mitigate demand among higher users, as well as educate and change consumer behavior. ENE services include:

Tier I: Toll free phone support, resources to the ratepayers, help them to develop rebate and incentive programs. Fulfillment services – walking a residential customer through specific issues and helping them to understand how their rates work.

Tier II: Field work, go out to a home and provide a soup to nuts audit. Look at all end uses and make recommendations. Provide tracking and reporting. Audits are fully customized for each customer.

Water Side: questions related to leak detection, appliances, irrigation, xeriscaping; provide info on all topics. Also provide newsletter support, marketing support and educational workshops in school systems.

Mr. Lefebvre raised the topic of xeriscaping, in that suburban developments use more water than older neighborhoods. In some communities, there are regulations for low flow toilets, showerheads, and irrigation systems. Ms. McGreavy asked what would be an appropriate demand management fee for water? Mr. Garille stated that the electric utility industry DSM fee in RI is .023 KWH. Ms. McGreavy asked if any other states have instituted a DSM fee for water. Mr. Mura was not aware of any in New England. Mr. Bishop stated that if no subsidy is applied, than the economic benefit of the service itself is the justification. Mr. Garille explained that all subsidiaries have a DSM program. Rate structures differ by subsidiary in different states. Each utility administers their programs and money stays local. Programs are

effective if you can show a pay back within 2-3 years.

Mr. Simeone stated that all electric suppliers are regulated by the PUC, but not all water suppliers are regulated. There are 484 legally defined water suppliers in RI. When the largest are removed, there are 479 suppliers probably serving 10% of RI. From a finance point of view, we have a difficult time identifying supply areas, as well as the ability of the suppliers to gain support not only from their communities, but from the legislative bodies. There are some very sophisticated suppliers, and then there are trailer park suppliers, who are less sophisticated. So we go from a financial audit, to a mere compilation. When relating water use to waste water, think about the sizes of the pipes that go into the house, versus the size of the pipes that leave the house. Many of the largest wastewater suppliers base their fee on water use. We are trying to address this problem, and try to fit people into several categories of users, ranging from smallest to largest.

Mr. Bell asked what type of a fee or charge would be applied to private water users. Mr. Simeone suggested that perhaps wells should be metered. Mr. Bishop said that RI is under the "Absolute Dominion Doctrine"—if you pull water out of the ground, it's yours. What's lacking is an actual cost for the water. Electric bills have a huge list of fees representing the cost for the generation of the commodity. DSM can potentially provide a cost signal. Mr. Simeone asked whether a financial analysis is part of a water audit. Mr. Mura replied that it is not. He added that he does not know of any electric or gas utility that would send their commodity unmetered to any consumer. Mr. Bishop was interested in customers who are not operating from a mandate framework, but who see a potential value such as infrastructure investments, or because they understand the limits of the supply.

Mr. Lefebvre suggested a funding mechanism where the money doesn't have to go through the revenue bond system. Ms. Bondarevskis thought that one central agency should manage the program. Ms. McGreavy wondered whether the committee could a) figure out the cost of providing the water from each of the suppliers, then aggregate the figures and apply a statewide DSM charge (include individual well owners) or b) specify the charge according to what the costs of the individual utilities are. Ms. Bondarevskis felt a DSM should be based on consumption. She referred to a spreadsheet listing water supplies with service connections. The objective would be to find out annual consumption for each supplier. She suggested that if we spend a million dollars or more a year in the state on conservation, then we would know what to charge to generate the revenue.

Mr. Garille stated that a typical RI bill is for 500KWH; 500 x .0023 = $1.15/month. Mr. Payne explained that once, the DSM charge was a subsidy that went from the residential sector towards the commercial/industrial sector. Now the commercial/industrial sector realizes the benefit, but the likelihood of additional projects in that sector is going down. However there are good system benefits, so it remains reasonable. Mr. Bishop asked whether system benefits are quantified? Mr. Payne responded that the value of DSM type programs is that they can increase water system functionality, which is good for everyone. We must make sure that the cost and benefits are being fairly and reasonably allocated. He added that a DSM could be on a 5-year increment, because there may be times it's useful to say "well it may be too high or too low or it's outlived its purpose." We must know what kind of benefit we want to get out of having the charge, who benefits and how, and then calculate a charge that's equal to obtaining that benefit. Obviously, the benefit should be greater than the cost of obtaining it. If water is

allocated, people could get credit for participation in a DSM program.

Mr. Bell asked if he would pay less with a DSM charge. Mr. Garille felt strongly that he would ("pay me now or pay me later"). Mr. Payne suggested that if demand had continued to increase without DSM savings, and you had to purchase that energy in the market place, and the market place fluctuates, and if you say no DSM program, and we had to buy the power, by avoiding the need to purchase that power, the rates would be lower. But that's not the only way that system benefits accrue. Mr. Bondarevskis stated that if we did this with the water industry, it would be to conserve the water we have and not build additional water treatment plants or put them on line later. It was to ensure that the water would be there for future populations. Mr. Payne stated that in doing a cost benefit analysis, that is a place to capture some money that could address externalities such as storm water.

Mr. Bell said it is also a question of how well utilized the subsidies have been, especially by a particular class of customer. Through the implementation of DSM, if you do things to optimize use of the commodity, it is cheaper, over time, e.g. insulate your home, buy a front load clothes washer. Mr. Payne stated that if there is excess generating capacity in the system, then the value of DSM goes down. But if you're expanding, then the cost savings of DSM goes way up. It fluctuates year by year. Mr. Bishop added that water is a finite resource, and it is in everyone's best interest to begin to address consumptive behavior and effective ways to mitigate them. He did not feel that legislation was needed, citing Pascoag, RI. Economic demand management is when the price goes up and consumption goes down. Mr. Garille suggested there could be a sunset clause. When utilities get to the point where they're carrying millions of dollars forward every year, the program could sunset.

Mr. Garille called for a motion to provide support to go further in greater detail regarding a DSM charge to be based on consumption with other caveats. Mr. Payne made the motion which was seconded by Mr. Lefebvre.

IV. ITEMS FOR DISCUSSION:

A. Progress on Assigned Tasks

Ms. McGreavy suggested certain agenda items could be carried over to next month, including discussion of the rates spreadsheet, water use categories, sewer use fees and findings from the EPA study. Ms. McGreavy distributed two residential retrofit studies for Lincoln Water Commission and Kent County Water Authority to Mr. Bell. Mr. Burke will report on Westerly's program. Ms. McGreavy will report on the status of metering of emergency interconnections. Ms. Bondarevskis distributed a spreadsheet depicting service connections for major water suppliers. Annual consumption figures will be plugged into the spreadsheet in order to calculate potential revenues from a DSM fee.

a) Spreadsheet of water rates (J.Bell)
b) "Non-account" Water Use Categories (J. Bell/C. McGreavy)
c) Categories of Water Users (A. Simeone)
d) Sewer Use Fees (A. Simeone)
e) Per Capita Water Use Statistics for RI (G. Lefebvre)
f) Residential Retrofit Program Update (J.Bell, K. Burke)
g) Meeting of Emergency Interconnections (C. McGreavy)
h) Potential Revenue Derived from a DSM fee (J. Bondarevskis)

i) Reference Materials to Review (G. Lefebvre)
- NEWWA Report on Mass Rates
- Active Public Water Systems in RI

B. Prioritizing the Master Task List:
Ms. McGreavy recommended that the committee rank the list in terms of high, medium, and low priority.

V. OTHER BUSINESS:

A. A lead representative will report to the water allocation program advisory committee in January.

B. The next committee meeting will be held on Feb. 5th from 10AM-12 noon at Providence Water Supply Board, 552 Academy Avenue, Providence.

VI. ADJOURNMENT:
On a motion by Mr. Bell , seconded by Mr. Bishop, the meeting adjourned at 12:22 PM.

Respectfully submitted,

Jeanne Bondarevskis
Providence Water Supply Board

Bekah Rottenberg
Brown University

**Note: For more information on Water Allocation, visit: http://www.seagrant.gso.uri.edu/scc/wrb/index.html.*